OUR NATIONAL DEBT — A TIME FOR ACTION

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PREFACE

There is much that goes on in the business of running the government of the United States that is not understood by many Americans. The very structure of our democracy provides that the desires of the many will be decided by a very few; a very few that are placed in office by the process of the free election. We support the person, or the political party, which we believe will best represent these desires.

This process has seen no significant change through the years since the birth of our liberty, almost 190 years ago. During those years there have been many crises, some of which were resolved much better than others, and one, in fact, which temporarily destroyed our Union. Yet, 100 years after that particular disaster, we are still united, and have become the wealthiest and proudest nation on earth.

We have great aspirations for the future and face immediate challenges that our fathers, and even some of us, early in our lifetimes, would not have believed possible in this century.

We face this future with optimism clouded by a threat of world destruction. We have many goals and we have planned ways to reach many of them.

With all of this we seem to assume that we will be able to finance our needs as we go. Very seldom are goals and

finances mentioned in the same breath.

Of late there has been much discussion regarding our financial program. Primary emphasis is placed on current economic conditions and methods to stimulate our growth. As methods are suggested, which generally project deficits in national income, attention is being focused on our national debt and the consequences of its growth.

It is this national debt problem that receives primary attention in this paper.

It is not the intent of these pages to resolve this debt problem in one all-inclusive conclusion, or even to attempt to resolve any portion of the problem. This will take years in solution and even then, not in the same sense as we think of solving problems to a one and only solution. The changing times that face our country make the one solution as elusive as the treasure that awaits the one who reaches the end of the rainbow.

Rather, it is intended to provide some basis from which to begin a program to determine, and advise, the public of the situation in terms of possible consequences resulting from various courses of action, i.e., greater or lesser spending available to those administering our financial policies in government.

Inasmuch as this paper is, in a sense, a climax to a very enlightening but trying scholastic year, there is no more appropriate place than here to pay tribute to those most responsible for making its completion possible. To my wife

Anne, who, with everything else, was my chief typist and baby-quieter, and to Dr. A. Rex Johnson, my director and chief morale-builder, my deepest and heartfelt thanks.

C. Jack Keidel

McLean, Virginia
April 15, 1963

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CHAPTER I

HISTORY OF THE UNITED STATES NATIONAL DEBT

Introduction

> The pros and cons of the public debt, will, I have no doubt, be considered by most economists as so threadbare a topic that it is not worth writing about.[1]

These are the words Dr. Alvin H. Hansen of Harvard University, a leading economist and public debt authority, chose to begin some remarks titled: "The Public Debt Reconsidered."

Why, then, should one who has had just a slight contact with the problem want to add more to this much-discussed subject? The answer is quite obvious as one reads some of the many relevant discussions. To relieve the reader of some of this effort, it ultimately draws down to the questions: What are we as a nation doing about our public debt? Do we have a national policy? If so, what is it?

Before we try to arrive at some conclusions regarding these questions, perhaps it is well briefly to review some of the history of our debt, and what some of our national leaders believed.

It is not unusual to use the terms "public debt" and "national debt" interchangeably, so at the outset it is perhaps pertinent to clarify the terms.

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[1]Alvin H. Hansen, Economic Issues of the 1960's (New York: McGraw-Hill Book Co., Inc., 1960), p. 211.

> Technically, public debt and national debt are not identical. The term "public debt" includes the debt not only of the federal government, but also of state and local governments; "national debt" covers only the federal government.[2]

For the purpose of this discussion we are referring to the national debt as defined by Mr. Harris, but the terms will be used interchangeably.

Even in the earliest periods of our nation's existence there were, as today, varying opinions concerning a national debt. Alexander Hamilton, in a letter to Robert Morris on April 30, 1781, said:

> A national debt, if it is not excessive, will be to us a national blessing.[3]

As an early and forceful advocate, then later as the first Secretary of the Treasury, Alexander Hamilton has come to be regarded in economic and historic literature as the great exponent and believer in the existence of a large national debt.

There is, however, at least one dissenter to this idea concerning Hamilton.

> Strange as it may seem, Hamilton's actions and words both repudiate any such doctrine. He was not an advocate of a large national debt, and he did believe that the greatest thrift and care should be exercised constantly in the use of all public funds.[4]

Thomas Jefferson, in a letter to Governor Plumer in

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[2]Seymour E. Harris, The National Debt and the New Economics (New York: McGraw-Hill Book Co., Inc., 1947), p. 2.

[3]George Seldes (ed.), The Great Quotations (Lyle Steward, N.Y.: Caesar-Stuart Book Co., 1960), p. 295.

[4]Roy A. Foulke, National Thrift and the Public Debt New York: Dun and Bradstreet, Inc., 1944), p. 9.

1861, wrote:

> I place economy among the first and most important of republican virtues, and public debt as the greatest of the dangers to be feared.[5]

In another letter to John Taylor in the same year, he continued:

> The principle of spending money to be paid by posterity, under the name of funding, is but swindling futurity on a large scale.[6]

A few years later, writing to L. H. Coleman on April 26, 1824, Andrew Jackson said:

> I am one of those who do not believe that a national debt is a national blessing, but rather a curse to a republic, inasmuch as it is calculated to raise around the administration a moneyed aristocracy dangerous to the liberties of the country.[7]

Several months later, on July 4, 1824, he continued his emphasis:

> If a national debt is considered a national blessing, then we can get on by borrowing. But as I believe it is a national curse, my vow shall be to pay the national debt.[8]

It is reasonably well known that he did, in fact, pay off the national debt before he left the Presidency in 1835, and considered it one of his greatest accomplishments during his tenure in office. This feat has never since been accomplished.

These quotations, from three of our well known early

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[5]H. L. Mencken (ed.), A New Dictionary of Quotations (New York: Alfred A. Knopf, 1957), p. 268.

[6]*Ibid.*, p. 268.

[7]Seldes, *op. cit.*, p. 354.

[8]Mencken, *op. cit.*, p. 268.

Americans, are but a few that can be found which indicate that then, as today, the problem of a national debt was a matter of much discussion, with varying degrees of concern. Time passes, conditions change, but some problems continue. Through the years they receive greater or lesser attention, but they do continue.

In the days of Hamilton and the others, the figures were different, but so were the conditions.

Borrowing from statistics contained in two booklets concerning the public debt, it might be well to review our governmental financial position in its early days.[9]

1790-1837

The Federal Government began operations in 1790 with a $75.9 million gross debt which amounted to $19.12 per capita. This rose to $127.3 million in 1816, primarily as a result of the War of 1812, and fell to complete extinction in 1836. Customs receipts accounted for over 90% of the revenue in twenty-three of these years. Because of the war, our customs receipts naturally fell off, and to help carry some portion of the increased expenditures for financing the war, direct taxes of a wide variety were enacted in 1813, for levying in 1814. There was considerable discussion in the Congress concerning these taxes before they were finally enacted.

These taxes covered such divergent sources as a duty on carriages, a license upon distillers of spirituous liquors,

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[9]Foulke, op. cit.
Chamber of Commerce of the U.S., Finance Dept., The Public Debt (Washington, D.C.: By the author, 1945).

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a tax on auction sales (auction sales played a far greater part in our early economy than today), and a license tax upon retailers of wines and spirituous liquors.[10]

There were twelve years during this forty-eight-year period where deficits were incurred, but the last, of less than a million dollars, was in 1824.

1837-1866

This period began with a nominal deficit of $336,000 in 1837. Followed by an equal division of surplus and deficit years, our debt in 1860 stood, nevertheless, at $64.8 million, or $2.06 per capita.

Financing the Civil War resulted in five of the next six years showing deficits, with 1865's $963.8 million net deficit, standing out as a tremendous deficit at that time. In 1866, the total debt was $2.8 billion, or $77.69 per capita.

The Civil War brought about the first taxing of incomes. To assist in financing the war, though customs was still the great provider, Congress enacted a tax on incomes in 1861. It started with a 3% tax on incomes in excess of $800 per annum, and was increased in 1862, and again in 1865, until incomes between $600 and $5,000 were being taxed at 5% and above; $5,000 at 10%. The last rate provided revenue of $32 million in 1865.

1866-1893

This period saw twenty-seven consecutive surplus years. During that time the debt was reduced to $961.4 million, or

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[10]Foulke, op. cit., p. 21.

$14.49 per capita, in 1893.

This was a period of great prosperity. We were engaged in winning the West and expanding in that direction. The debt was reduced 65.1%. Expenditures were large, but receipts were larger. The income tax law was repealed in 1872, as a result of these continuing yearly surpluses, but this action was really initiated because of the cry--"It's unconstitutional!"--being raised. Customs revenues were still providing better than 50% of the income; their highest contribution was 59.4% during the period.

1893-1916

Customs began dropping below the 50% mark, and in only six of these twenty-three years did it exceed that mark, the highest being 52.7%, in 1893.

In 1913, the Sixteenth Amendment to the Constitution was ratified. This amendment revolutionized our national fiscal policy and resulted in the income tax being our primary source of revenue. In the early years, income tax furnished little funds. For example, the income tax yield for 1914, 1915, and 1916 was only $28, $41, and $68 million, respectively.

Nine years of surpluses and fourteen years of deficits left us with $1.3 billion in debt, or $12.36 per capita, just prior to our entry into World War I.

1917-Present

The peak of the World War I debt was reached in August, 1919, with a total debt of $26.6 billion, or $250.18 per capita.

The federal income and excess profits taxes had now begun to come into their own. In 1917, these two sources provided 32% of all receipts, and in 1919, they represented 58.6%. In contrast, customs receipts had dwindled to only 3.9% of our income in 1919. In a period of five short years, the income and excess profits taxes had become our chief source of income.

The lowest post-World War I debt was $16 billion in December, 1930, or $129.66 per capita. coming after eleven consecutive surplus years. The first deficit of the depression years was in fiscal year 1931. The debt continued its upward climb, reaching $42.9 billion, or $325.63 per capita, by June 30, 1940. The debt rose rapidly during World War II, and at the close of hostilities, stood at $262.6 billion, or almost $1900 per capita.

There can be no question that financing the costliest war in history meant a huge debt would be one of the consequences. Although the war has been finished for almost twenty years, where does our debt stand today? A brief look at any chart on the subject indicates that it continues to rise, and now is in the vicinity of $300 billion. A closer look shows that we have only succeeded in making a token reduction in our debt, five times since 1930, and, in fact, we have only had six small budget surpluses during that period.

From the foregoing history, even though we recognize the differences in opinion that exist on the subject, the pattern is well defined! Create a debt, if necessary, in time

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of national emergency, but make an effort to reduce it in times of peace.

The Pattern Changes

Through the decades, the debt has risen primarily during war and depression and has fallen largely in response to the basic philosophy that the national debt should be extinguished. The debt was entirely paid off twenty-four years after the War of 1812. In the twenty-seven years after the Civil War, the debt was reduced by almost two-thirds, and in the ten years after World War I, the debt was reduced by one-third.

This has not been the pattern since 1945. As almost every American knows, our debt has been increasing. "Why?" we ask. "Who has changed the rules?"

We, the people of America, have changed them. A subtle but important change seems to have occurred in the minds of the American people and in the men whom they elect to public office. There no longer seems to be concern about reducing the debt as in the past. The prevailing mood seems to be that we can live with this large debt.

Writing on the public debt in 1945, Mr. William Whithers said:

> After the war, nevertheless, we shall have to decide whether public debts and public spending are good or evil, and it is to be hoped that we will not decide the matter arbitrarily.[11]

Another authority, commenting on the same problem, wrote:

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[11]William Whithers, The Public Debt (New York: The John Day Co., 1945), p. 3.

> Until this basic issue of national policy is settled, we shall inevitably drift in the direction indicated by the new philosophy--because the money appropriating authorities can hardly be expected to muster sufficient resolution to resist the persistent demands for increased public outlays or to levy sufficiently heavy taxes to cover the appropriations. The apparently easy way is, moreover, always the popular way. Unless the issue is decided by the process of intellectual discussion, it is likely to be automatically determined by the temper and trends of the times backed by the "educational activities" and pressures of the spending agencies.[12]

Much of the writing in the 1940's refers to the new philosophy and inevitably raises issues to be considered in managing the debt in the post-war years. One other feature is almost always present. In general, the authors make no pretense of answering the questions raised. The questions are more or less placed "on the table" for discussion and consideration.

Judging from the controversy one hears and reads about the subject, and the prominence it seems destined to play in the current legislative session, the questions remain unanswered.

With this thought in mind, it will be well to make a hasty review of the schools of thought which are playing an important role these days in our country's thinking on the subject of fiscal policy.

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[12]Harold G. Moulton, The New Philosophy of Public Debt (Washington, D.C.: The Brookings Institution, 1943), pp. 12-13.

CHAPTER II

CHANGE IN PHILOSOPHIES

The Old

Throughout most of this country's history, there was general agreement that the federal government should at least attempt to balance its budget every year. It was considered proper that the government should live within its means. We have seen from the foregoing that the effort to balance the budget was very successful for a greater part of our history. The public debt totaled only $63 million at the end of 1849, over seventy years from the birth of our nation, but sixty years from the time of our first assumption of a national debt.[1] Even in 1917, before our entry into World War I, our debt had not reached the $3 billion level.[2]

Philosophies or theories on budgets, with resulting deficits or surpluses, have seen considerable change through the years. Adam Smith and other classical economists generally opposed government deficits. They were protagonists of balanced budgets, debt retirement, and sound money policy.

> Government is unproductive; it maintains unproductive labor, whereas industry maintains productive labor;

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[1]U.S., Executive Office of the President, Bureau of the Budget, The Budget in Brief, 1964 Fiscal Year (Washington, D.C.: Government Printing Office, 1963), p. 62.

[2]Ibid.

> funding of the public debt means a corresponding reduction of private capital--these were the keystones of Smith's views on the public debt.[3]

They argued that government borrowing diverted capital that was needed to build the private economy. Deficits were the result of excessive government spending, and since borrowing is politically easier than taxing, they believed that the power to borrow only increased the temptation to spend.

David Ricardo, in England in the early 1800's, had similar ideas concerning the public debt, but his were much more rigid and less compromising.

> According to him, agriculture, commerce, and business flourish best when not hampered by government interference: distress of business is explained in no small part by the dearth of capital, associated with the growth of the public debt, and with profuse spending by individuals; money spent by the state is withdrawn from the productive capital of the nation; it is the provision of the loan rather than the continued transfers of interest which accounts for the destruction of capital; if public spending is absolutely necessary, then the State should have recourse to taxes, not loans. Yet Ricardo, in contrast to many other writers of the period, would not cancel a public debt; for one man's gain would be another man's loss.[4]

This was the thinking of the economists through the early history of our country. It was this "live within your means" attitude which dominated our thinking in the early years of the twentieth century. Simply stated, holders of this view believe that a continuously unbalanced budget and rapidly rising public debt imperil the financial stability of the nation. Sound fiscal policy requires holding a nation's indebtedness to as low a level as possible.

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[3]Harris, op. cit., p. 51. [4]Ibid., p. 53.

The Shift

It was not until the middle 1930's, when the expected recovery failed to reach the stage of prosperity or to alleviate the unemployment situation, that attention started to shift to the use of public expenditures as a positive and primary force in promoting economic recovery.

The name of John Maynard Keynes, a British economist, is usually mentioned as giving impetus to this shift in thinking. During a visit to this country in 1934, he argued:

> . . . the stimulating effects of a really abundant outpouring of public funds would prime the industrial pump and thus generate a thorough going recovery and expansion of private business activity. During the early days of pump priming no one appeared to doubt that the budget would in due course balance itself--as a result of the simultaneous expansion of tax revenues and contraction of government expenditures which would accompany a period of prosperity.[5]

Mr. Moulton points out later that from what he has been able to find in Keynes' published writings, Keynes never contended that pump priming would have to be continued permanently, or that an indefinite expansion of the public debt would carry no dangers.

Nevertheless, history tells us that, beginning in the middle of 1936, there was a substantial expansion of business. It appeared that the pump priming was living up to its expectations. Then, with prosperity really "just around the corner," the "boom" disappeared, followed by a new depression.

Because of the expanding national income which had increased tax revenues, the government's net contribution

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[5]Moulton, op. cit., p. 15.

to purchasing power had been reduced to negligible proportions.

It was not long before the exponents of the spending philosophy took the position that the new depression was the direct result of the shrinkage in the government's contribution to purchasing power.

At the same time that new thinking about monetary and credit policy was evolving, the continued deficits of the 1930's led to the gradual acceptance of a new budget policy and a new attitude toward the growing public debt.[6]

The philosophy of expenditure in emergency but reduction of debt in periods of prosperity was meeting opposition.

The New

The Keynesian position began to develop appeal, and the influence of Dr. Alvin Hansen became important in this country. Keynes himself did not elaborate the role of fiscal policy in the maintenance of full employment, but Dr. Hansen and the Keynesians did. Hansen argued that fiscal policy had been forced to serve as a compensatory device more by accident than by design.[7] Public finance had been broadened by the political necessity of coping with unemployment. Most of the principles intended to cover public debt policy had been borrowed from private finance, but the analogies were misleading.

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[6]Paul J. Strayer, Fiscal Policy and Politics (New York: Harper and Bros., 1958), pp. 15-16.

[7]Alvin H. Hansen, Fiscal Policy and Business Cycles (New York: W. W. Norton and Co., 1941), pp. 135-222.

> If one adopts wholeheartedly the principle that government financial operations should be regarded exclusively as instruments of economic and public policy, the concept of a balanced budget, however defined, can play no role in the determination of that policy.[8]

Hansen contended that success or failure of public debt policy can be determined only in relation to the aggregates of national income and its distribution. Whether or not the public debt should be reduced depends on the general economic situation, not on principles applicable to private commercial accounting. Economic activity in the government sector is not sustained out of private economic activity; it is an independent sector in the production of goods and services. Government outlay financed by debt creation will increase the level of national income, regardless of the productivity of the assets which may be acquired.

Dr. Hansen also pointed out that the limits to the public debt must be determined in relation to the nation's taxable capacity, the danger of price inflation, and the distribution of income; the limits are flexible and not fixed. The implementation of compensatory fiscal policy requires a recasting of traditional budgetary policy, in order to view the expenditure and receipts side of government budgets in relation to the total level of economic activity.

The new philosophy, using 1937 as an example, believed that deficit reduction, whether it be increased taxes, reduced expenditures, or combination thereof, is deflationary in effect and will lead to depression.

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[8] Ibid., p. 188.

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About this time there was a growing emphasis being placed upon the "assets" created by public debts. Regardless of their character, it was widely believed that all public outlays were really investments. Having reached this point, it was an easy step to the proposition that all increases in public expenditures represent income to someone and that all reductions in public expenditures represent loss to someone.

The maturing of this new concept was delayed until the war paved the way for an unlimited expansion of public credit. Vast increases in public expenditures wiped out unemployment and gave us a great increase in national production. Although precisely the same thing happened in former wars, it appeared to be assumed by advocates of the new school that something unique had been discovered during the years of World War II. Holders of the old ideas were shocked at such assumptions. They said:

> It should be apparent without argument that the present war [World War II] experience has merely confirmed what was already known, namely, that a great expansion of employment can be provided by unlimited expenditures of public funds. But neither in this nor other countries has the war experience shed any light on the question whether public deficits can be continued indefinitely without undermining the financial and economic system.[9]

In recent years the idea that federal budgets should be balanced every year has gradually given way to the still controversial theory that budgets should be balanced over the years of the business cycle. That is, it is all right to have deficits in a recession as long as they are offset by surpluses

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[9]Moulton, op. cit., pp. 18-19.

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in good years, yielding a net balance or surplus at the end of the cycle.

President Kennedy indorsed this theory in one of his first official statements concerning budget policy in March, 1961. In his Message to Congress on Budget and Fiscal Policy on March 24, 1961, he said:

> The Federal budget--should, apart from any threat to national security, be in balance over the years of the business cycle, running a deficit in years of recession, when revenues decline and the economy needs the stimulus of additional expenditures, and running a surplus in years of prosperity, thus curbing inflation, reducing the public debt and freeing funds for private investment.[10]

But the theory of achieving a net balance or surplus over the cycle has not worked out, at least, not to the present. When the economy is prosperous and produces increased tax receipts, the government spends most of the increase or turns it back to the public through tax cuts instead of using it to pay off debts incurred during recessions.

Now even before the cyclical theory has won universal acceptance, the present administration is pressing the newer idea that deficits are healthy during in-between years of the cycle.

It is not enough to have deficits just in recessions, according to some administration policy-makers; it may be necessary also to stimulate business activity with deficit spending in periods like the present, when the economy is rising but has not yet achieved full employment of labor and

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[10] John W. Gardner (ed.), To Turn the Tide (New York: Harper and Brothers, 1962), p. 99.

other resources.

If the government tries to balance the budget too early in the upswing phase of the business cycle, the administration fears the economy will level off and start declining before its complete recovery from the last recession. In other words, the next recession would start prematurely.

This present situation will be discussed more fully in a later chapter. What has been intended here is to show the change in philosophy which we have undergone in recent years concerning budget balancing and acceptance of a growing national debt.

CHAPTER III

THE MIDDLE ROAD

Proper Debt Appraisal

> Many a citizen will never be able to understand fully the problem of the public debt . . .[1]

Professor Paul A. Samuelson, a noted economist at M.I.T. and the author of a widely used textbook in United States colleges, says:

> No beginner can be expected to master all of the intricacies involved in correct appraisal of the public debt.[2]

This is what two authorities of economics involved in the national debt have to say concerning the details of the problem. Sharing their opinions, the details involved in the various philosophies have been omitted because they serve no purpose for the objective herein.

> In appraising the burdens involved in a public debt, we must carefully avoid the unscientific practice of making up our minds in advance that whatever is true of one small merchant's debt is also necessarily true of the government's debt. Prejudging the problem in this way comes perilously close to the logical fallacy of composition; and, instead of permitting us to isolate the true--all too real!--burdens of the public debt, may only confuse the issue.[3]

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[1] James M. Buchanan, Public Principles of Public Debt (Homewood, Ill.: Richard D. Irwin, 194_), p. 1.

[2] Paul A. Samuelson, Economics--An Introductory Analysis (5th ed.; New York: McGraw-Hill Book Co., 1961), p. 393.

[3] Ibid.

This may well be one of the basic problems that faces us today. Too many have pre-judged the new philosophy without understanding it or hearing it out. Maybe it is not all bad or as bad as some seem to suggest.

If the alarmist is not right, the pollyanna may be equally wrong. One should not say merely that the national debt is good or bad, helpful or harmful, destructive of private enterprise, or indispensable to its maintenance.

Economic problems are not solved so simply. It is not like measuring the specific gravity of iron or the temperature of an animal. In fact, it is not clear that the community would be better off without debt accumulation any more than it is clear that private enterprise would be better off without its debt. In appraising the debt, it is necessary to take into account the gains from accumulation of debt, and there are gains, as well as the cost of financing the debt. For the debt, there are certain assets: a decisive victory in war, the rise of physical assets, favorable effects upon income and savings, and medical and sociological gains associated with reduced unemployment.

Variety in Viewpoint

The financial purist, always adverse to debt, views debt growth in war with uneasiness; but he has no alternative other than to acquiesce. He will indeed urge heavier taxation and economies in expenditures; but within broad limits, there is little that he can do about wartime borrowing and wartime public debt, which he accepts as a necessary evil. Borrowing

in peacetime, on the other hand, he considers an evil, neither necessary nor acceptable--to him it is an abomination.

Increased attention to government deficit financing stems from the change in emphasis which might quite properly be associated with the Keynesian revolution. Classical economists, in arguing against accumulation of public debt, generally assume full employment, inelastic monetary supplies, unproductiveness of public expenditure for purposes other than defense, justice, etc. Therefore, they object to government borrowing; in their view, the government, by borrowing and by taxing to defray interest payments, deprives the economy of cash and capital, and the government's use of resources is less productive than that by private enterprise.

But the classicists' assumption of full employment and inelasticity of monetary supplies is unrealistic. Once the economist, in a more realistic mood, allows for unemployment, assumed elasticity in monetary supplies, and agrees that government expenditures could be productive and need not necessarily be wasteful, the case for public borrowing is strengthened. The cash obtained by the government might come from unemployed cash, or out of additional deposits created by banks; and the labor and capital put to work by government might otherwise have been unemployed. Government might thus, through the borrowing process, increase the output of goods and raise real income; and in so doing, it would obtain the means of financing the public debt. Above all, it seems wasteful and foolish to tolerate large amounts of unemployment if, by

government borrowing and an ensuing rise of demand, unemployed resources could be put to work--and this without national bankruptcy or anything approaching it.

Rise of Debt in Peacetime

The general public, at least to some extent, seems worried over today's national debt; but even more than over the high level of today's debt, the public is worried lest the debt continue to grow. They fear this continued growth, not only because of the financial commitments involved, but also because of the crushing weight on wealth and income. Furthermore, they are fearful of the increased participation of government in economic life, with resulting reduced areas for private enterprise. The thesis that private enterprise is unable to carry on and provide the minimum standards of output and employment, without which capitalism cannot survive, is challenged by the anti-spenders. They are impressed by the restraints put upon private enterprise by governmental measures, by the increased contribution that might be made by price flexibility and unlimited competition, and by the insatiable demand for American and even foreign products. They argue that increased governmental participation is not required, that the system of private enterprise is sufficiently resilient and automatic so that, given the proper political environment, the goods produced will find a market at profitable prices.

On what grounds, on the other hand, do the protagonists of public debt take their stand? They point to past

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relationships of income and spending and conclude that, at the high incomes necessary to assure high levels of employment, private spending would be inadequate. Therefore, they propose a socialization of demand, i.e., support of demand through governmental deficit spending, which, in their view, is the way to prevent a cumulative decline. These proponents of debt accumulation, for the most part, would not rely exclusively upon the growth of debt; they would take other measures (reduction of interest rates, reduced taxes on the masses, expanded social security) which strengthen the propensity to spend.

The supporters of deficit financing point to the crucial relation between national income and the debt charge; as long as the former rises adequately, a growing debt need not be feared. In fact, they contend that debt growth stimulates the rise of income, and that this increased income provides the source from which the increased debt is financed. Adherents of this position point to the history of real income, which over a period of eighty years prior to World War II rose greatly, doubling itself on the average of every fifteen years.

Supporters of the new views point specifically to the growth of income in Great Britain in the hundred years preceding World War I, from 1814 to 1914: the British were saddled with a crushing debt of 840 million pounds, the financing of which in 1818, absorbed almost 8% of the national income. Yet, in 1913, ninety-five years later, though but one-quarter of the debt had been repaid, its financing required less than 1% of the national income--and this despite a large fall in

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prices.[4] If, like the protagonists of deficit financing, we examine historic episodes, we can better understand their position. Give the country good management of the economy, and we shall have rising incomes; and with rising incomes, an increase in debt up to the amounts actually needed to assure adequate levels of output and employment can be accepted without fear.

> The public debt has been analyzed by economists from two basic points of view. On the one hand, orthodox economists regard the debt with fear, advise its early retirement, and ascribe to its unfortunate economic effects such as restriction of production, loss of business confidence and incentive, and greater inequality of wealth. Their public debt policy would consist of limitation and rapid repayment. On the other hand, unorthodox economists do not fear the debt, but consider it an essential instrument to ward off depressions and maintain purchasing power. A middle position would recognize the economic potentialities of the public debt while giving due consideration to its dangers. The debt may be an instrument for great good or evil. Its various economic effects must be understood to avoid the evil and promote the good.[5]

Related to the subject are the effects of interest payments on total spending. Here much depends on distribution of government securities and tax structure. The presumption even today is that the interest payments are on balance from potential spenders to potential savers. Taxation of income received as interest on the debt, however, tends to reduce the adverse effects--both because net interest is reduced and because other idle savings are taxed away.

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[4]Samuelson, op. cit., pp. 400-401.

[5]William Whithers, Public Finance (New York: American Book Co., 1948), p. 422.

Getting Together

One could continue because there is no lack of viewpoint on this problem and its consequences. Our trouble is that we have not found the middle or the best road, and judging from what has been transpiring over the past thirty years, the best road is not on our map. The driver has been going along the road he thought best for his or our purposes. Because there has not been unanimity, the road has been beset with detours, and other barricades which have delayed our progress.

We do not suggest that we take a view far from either extreme, out of preference for a middle ground, but out of belief that the facts do not warrant either complacency or despair.

Responsible observers agree that there are many problems to be resolved concerning the national debt. They hold that under prudent management these problems can be, and to some extent, are being solved.

> Sound principles of debt management, faithfully applied, can eliminate the potential dangers of a large national debt. Understanding these principles will show where the practical problems lie.[6]

> Economists may be criticized . . . if they fail to acknowledge that there are problems associated with an expanding debt. It is an error to recommend fiscal policy which requires a deficit without considering both negative and positive effects.[7]

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[6]Marshall A. Robinson, The National Debt Ceiling--An Experiment in Fiscal Policy (Washington, D.C.: The Brookings Institution, 1959), p. 61.

[7]Richard S. Bower, Associate Professor of Business Economics, Dartmouth College, "Letters to the Editor," Wall Street Journal, February 28, 1963, p. 16.

> Good debt management is predicated on understanding of its economic effects. But unfortunately there is no unanimity of opinion among economists concerning these effects. The theory of public debts has gone through many changes from the days of David Hume to those of Lord Keynes. One common point of agreement has been reached, however. Public debt can no longer be regarded as uninfluential in economic life and wise debt management is essential for the economic health of a nation.[8]

With such sentiments existing in the minds of many writers on the debt subject, it appears that there is a middle road. The problem seems to be in finding it and determining where it might lead. In the process, it is suggested that perhaps some rebuilding will be required to insure that it is basically satisfactory to all who will go along with the driver.

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[8]Whithers, Public Finance, pp. 400-401.

CHAPTER IV

TODAY'S DILEMMA

The Driver Makes His Choice

With the previous discussion behind us, what is the situation today? Are we, as a nation, accepting the new economics and going merrily on our spending way without regard for the future? Or, are we trying to keep expenditures down to reasonably considered limits? There is no question that government spending since the Korean police action has exceeded the revenues, but not much uproar has arisen from the people because there was token effort to balance the budget. Sputnik I helped in keeping the people quiet because here was an event or a new era where we were not number one, something most of us have taken somewhat for granted. Two World Wars gave us this confidence and now suddenly someone was ahead in a race unheard of just a few short years before.

We had to move if we were going to catch up or close the gap. This was an emergency of some sort, so a few more billions, to an already enormous debt, did not seem so terrible. As a result, public opinion remained quiet on the subject; whatever was done was accepted by the majority as being necessary.

It is not intended here to resort to the role politics

plays regarding this question. Reference to current administration policy, however, is necessary to bring out the facts. Had the last Presidential election taken a different turn, there would undoubtedly be a difference in policy. However, it is suggested that the same conditions would be still evident, the only difference being in degree.

In a speech in Columbia, South Carolina, on October 10, during the campaign in 1960, the then Senator Kennedy said:

> I am just as opposed as Mr. Nixon to unbalanced budgets and to Federal deficits.[1]

Earlier, during a question and answer session on state-wide television at Seattle, Washington, on September 6, 1960, the question:

> Sen. Kennedy, in your attainment of the suggested program of the new frontier, what safeguards, if any, are you proposing to avoid an unhealthy inflation or an unhealthy national debt?

was answered by Mr. Kennedy as follows:

> Let me say that I think it is extremely important that the U.S. maintain to the extent possible, a sound fiscal policy and a balanced budget. There are only two reasons, in my opinion, for an unbalanced budget. One, if there is a great national emergency requiring an expenditure by the Federal Government to protect the security of the U.S., or, two, if there is serious unemployment which requires action by the Federal Government.[2]

These statements, granted they were political campaign remarks, indicate our current administration's feeling on the

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[1]U.S., Congress, Senate, <u>Freedom of Communications--Final Report of the Committee of Commerce, Part I, The Speeches, Remarks, Press Conferences and Statements of Sen. John F. Kennedy, Aug. 1 through Nov. 7, 1960</u> (Washington, D.C.: Government Printing Office, 1961), p. 549.

[2]<u>Ibid.</u>, p. 136.

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subject at that time.

After over a year and a half in office, President Kennedy addressed the nation on August 13, 1962, promising to recommend to Congress a top-to-bottom cut in personal and corporate income taxes, to become effective in January, 1963. The President highlighted the economic case for tax reduction in these words:

> Our tax rates, in short, are so high as to weaken the very essence of the progress of a free society, the incentive for additional return for additional effort.
> For these reasons, this Administration intends to cut taxes in order to build the fundamental strength of our economy, to remove a serious barrier to long term economic growth, to increase incentives by routing out inequities and complexities, and to prevent the even greater budget deficit that a lagging economy would otherwise surely produce.[3]

This could well have been the beginning of a discussion which will hold the public interest for many months to come, particularly through the first session of the 88th Congress.

Most statistics indicate economic activity is on the move upward. Since there is no recession indicated, this is the ideal time to put the cyclical theory to work and use planned surpluses for debt reduction.

However, for the first time in our history we have a President who is proposing tax cuts in a period of prosperity and budget deficits. The administration maintains that big deficits, with enlarging tax cuts, are healthy and necessary in the situation today.

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[3]U.S., Congressional Record, 87th Cong., 2d Sess., 1962, Vol. 108, No. 143, p. 15479.

The real showdown has not arrived, but the debate has already begun with surprising, if not overwhelming, support coming from those who have been brought up to fear debt and practice frugality. The old philosophy, maybe not to that extreme, but at least not the new "spend yourself out of recession" idea, is still in evidence.

Dr. Walter W. Heller, Chairman of President Kennedy's Council of Economic Advisors, and the man largely responsible for the tax reduction movement, said on January 28, 1963:

> I think it is quite remarkable that the basic puritan ethic of the American people should be such that they want to deny themselves tax reductions because of (a) their fears of deficits, and the additions to the national debt; and (b) because they do not understand that their spending, in effect, makes this contribution to the national growth and full employment.[4]

Dr. Heller argues that the United States economy has consistently fallen short of its employment, production, income, and profits goals in the past five years. The economy can be pushed toward more robust activity in three main ways by enacting a sizable cut in tax liabilities in the households and businesses throughout the nation. First, it would increase the disposable income of the consumers, giving them more spending power. Second, by strengthening sales and pushing output closer to capacity, tax reduction spurs investment in inventories and in new equipment and new plants. Third, by reducing personal and corporate taxes, profit margins increase for businessmen and the supply of internal business funds

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[4]Walter W. Heller, as quoted in "Thrift vs. Borrowing," U.S. News and World Report, Vol. LIV, No. 9 (March 4, 1963), p. 39.

available for investment is enlarged.[5]

> In my judgment, reduction of our tax overburden will be a prompt and effective spur to our lagging economy.[6]

President Kennedy submitted his fiscal year 1964 budget to Congress on January 18, 1963. Several quotes from his message were:

> Our present choice is not between a tax cut and a balanced budget. The choice rather, is between chronic deficits arising out of a slow rate of economic growth, and temporary deficits stemming from a tax program designed to promote fuller use of our resources and more rapid economic growth.[7]
>
> . . . .
>
> Our practical choice is not between a deficit and a budgetary surplus. It is instead between two kinds of deficits: a chronic deficit of inertia due to inadequate economic growth--or a temporary deficit resulting from a tax and expenditure program designed to provide for our national security, boost the economy, increase tax revenue, and achieve future budget surpluses. The first type of deficit is a sign of waste and weakness. The second is an investment in the future.[8]

President Kennedy also discussed the necessity for an increase to the temporary debt ceiling for the remainder of the fiscal year. Without such action, sound management of the government's finances would be impossible during the April-June, 1963 period. He also noted that further increases would be necessary during the period of his budget and such a request would be made when more reliable estimates were available.[9]

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[5] W. A. Heller, "Why We Must Cut Taxes," Nation's Business, Vol. 50 (November, 1962), pp. 40ff.

[6] Ibid., p. 40.

[7] U.S., Congressional Record, 88th Cong., 1st Sess., 1963, Vol. 109, No. 6, p. 482.

[8] Ibid., p. 488. [9] Ibid., p. 487.

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This yearly issue in Congress about the federal debt limit and government spending was raised earlier than usual this year. The temporary ceiling was raised twice in 1962, once to meet fiscal 1962 requirements, and once to meet anticipated fiscal 1963 needs. The second raise set the limit at $308 billion, but also provided a sliding scale by which the ceiling would be gradually reduced to the permanent $285 billion by July 1, 1963. The fiscal 1963 increase now is expected to be insufficient because of the budget deficit for the year.

When Congress passed the fiscal 1963 increase, the late Senator Robert S. Kerr, floor manager for the bill, predicted a further increase would be necessary soon after the 88th Congress met in 1963.[10]

At debt ceiling hearings before the House Ways and Means Committee on May 31, 1962, Secretary of the Treasury Douglas C. Dillon, in answer to the question as to what purpose the debt ceiling served, replied:

> I think that is the only purpose that the debt limit, itself, serves, namely, to have a full chance to debate and talk about overall fiscal problems.[11]

This discussion on the debt ceiling suggests that it really is not serving any purpose. When the President tells the Congress that his budget will not keep the debt within the

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[10]"Issues Facing 88th Congress," Congressional Quarterly Weekly Report, Vol. XXI, No. 1 (January 4, 1963), p. 3.

[11]U.S., Congress, House of Representatives, Temporary Increase in Debt Ceiling--Hearings before the Committee on Ways and Means, 87th Cong., 2d Sess., May 31 and June 1, 1962, p. 17.

established ceiling, the Congress has two obvious choices: raise the limit or cut the budget.[12]

In his closing statement on January 17, 1963, concerning the public debt, President Kennedy said:

> In the future, as in the past, debt management policies will be directed toward assuring that any increase in the debt will be so distributed in its ownership and composition as to promote continued price stability in the economy.[13]

It seems clear, then, that the administration has made its decision in accordance with the beliefs of the new economics. The administration is pressing to use deficit financing to give the economy the "shot in the arm" that many believe it needs.

The Voices Are Raised

Reactions to the President's budget message, both adverse and enthusiastic, cut across party lines. While both Democrats and Republicans offered blistering criticism of the proposed deficit, other Democrats thought the measures to stimulate the economy were not radical enough, and some liberal Republicans praised many of the specific proposals. Some of the specific comments made were:

> Speaker of the House John W. McCormack (Mass.) said the Budget was "sound and progressive" and offered "every prospect of introducing a new era of economic growth." However, Rep. Clarence Cannon (Mo.), chairman of the powerful House Appropriations Committee, found the Budget "loaded with waste." He said the U.S. was "spending money we do not have for things we could get along without."

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[12] cf., Robinson, op. cit., pp. 101-104.

[13] U.S., Congressional Record, Vol. 109, No. 6, p. 487.

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> Senate Minority Leader Everett McKinley Dirksen (Ill.) said the budget deficit was "incredible" and showed that it was easier to trim the taxpayer than federal spending. AFL-CIO President George Meany said the budget left the economy "stalled on the side of a mountain" and called for more radical measures to speed the rate of economic growth.[14]

In recognition of the criticism, particularly from congressmen, of proposing tax cuts when the budget was considerably out of balance, the President said in his economic message on January 21, 1963, that:

> . . . in today's economy, fiscal prudence and responsibility call for tax reduction even if it temporarily enlarges the Federal Deficit.

The President argued that the economy had been

> sliding into one deficit after another through repeated recessions and persistent slack in our economy.

He said a new recession "could break all peace-time deficit records." Cuts in the budget, which the President said would "necessarily" be in defense and other "vital" programs, would endanger the country and reduce demand, production, and employment, cut tax revenues, and still leave a budget deficit.

As in his budget message, he cautioned against deficits of "inertia and weakness" resulting from unused economic capacity. Rather, temporary budget deficits would eventually produce surpluses as the economy picked up, he said.[15]

The reader is probably well aware of the variety of opinions that exist on the tax cut and reform bill being

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[14]"Budget, State of the Union Message Debated," Congressional Quarterly Weekly Report, Vol. XXI, No. 3 (January 18, 1963), p. 52.

[15]U.S., Congressional Record, Vol. 109, No. 8, p. 677.

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considered by the present Congress, and its ultimate effect on the economy and the debt. What may also be apparent but not quite so readily, is the fact that there is no solid front of thinking along political, labor, industry, or such other lines one might wish to consider.

There can never be complete agreement on anything of such enormous proportions as our country's fiscal policies, and, as a matter of fact, there should not be. President Kennedy talks of "fiscal prudence"; it stands to reason that he must have chosen his advisors in this area with care so that this objective would be maintained. But something is terribly wrong when we have such violent opposing positions that lead honored statesmen publicly to denounce our President's choice of advisors, or his policies on an issue that should be a united one.

Senator Harry F. Byrd (Democrat, Virginia), long an advocate of a balanced budget and reduced debt, said in part in a statement released to the press on January 31, 1963, in comment on a statement made by the new Budget Director, Mr. Kermit Gordon:

> I submit that a man who thinks a balanced budget would be a catastrophe does not have the frame of mind to direct the budget of the U.S. Government.
>
> . . . .
>
> Such ideas as Mr. Gordon expresses sound like John Maynard Keynes and Gunnar Myrdal rolled into one. Responsible fiscal positions should be filled with sound men. If we do not get crack-pot economists out of these positions, the American system will be lost.[16]

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[16]Statement by Senator Harry F. Byrd (D.-Va.), for release to the press, Washington, D.C., January 31, 1963. (Copy obtained from Senator Byrd's office.)

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Senator John J. Williams, speaking in the Senate on January 31, 1963, about the proposed tax cut, said in part:

> At no time has any government--and it has been tried several times before--ever been able to relieve unemployment with deficits. It has never been possible for an individual or a government to spend itself into prosperity with borrowed money.
>
> . . . .
>
> Unless some degree of fiscal sanity is restored at the executive level our country can soon be confronted with a real dollar crisis.[17]

These statements may be disregarded as emotional, political, or otherwise, but the fact remains that they are being made and by many in all walks of life. One has only to read the letters to editors in some of the better known newspapers throughout the country if there is any doubt on this point.

Comments such as:

> I wish to rise in defense of the Puritans against whose financial ethics Dr. Walter Heller is taking such a snide point of view.[18]

bear this out. It would be unfair not to add that there are, of course, supporters, in varying degrees, of the administration's position.

For example, William F. Cuozzi, Jr., Instructor of Economics at Fairleigh-Dickinson University, in a letter to The Wall Street Journal, wrote:

> I am dismayed at the lack of understanding of basic economic facts that exists not only among laymen but also

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[17]U.S., Congressional Record, Vol. 109, No. 16, pp. 1446-1447.

[18]Alan R. McCracken, "Financial Religion," The Evening Star (Washington, D.C.), March 7, 1963, p. A-12.

> among financial and editorial writers of our big daily newspapers, ... This lack of understanding is excusable in many instances, but certainly not when it exists in those influential writers of newspapers such as yours.
>
> . . . .
> A rising national debt will not bring disaster so long as the national economy continues to grow.
>
> . . . .
> In the case of where the economy is experiencing less than full employment, such deficits are necessary and will not cause marked inflation.[19]

The editorial writer, commenting on the above letter, says:

> We certainly thought we had heard the last of that one.
>
> . . . .
> We don't need to worry about the national debt because we owe it to ourselves. For most people that cliché is long since dead, though the theory behind it is unfortunatley very much alive.
>
> . . . .
> So if the old phrase is still going to be used, we should at least bring it up to date. We owe it to ourselves to start talking sense about the debt.[20]

The writer visited the offices of six United States Senators on March 8, 1963, in an attempt to obtain some first-hand information on the tax cut situation. While nothing specific resulted from the visits, which incidentally were not patterned on a scientific basis, but did include senators from both parties in all sections of the country, the following can be concluded.

At that time, the mail was coming in a steady, but small volume. The heavy mail will come when the bill gets closer to floor action. However, the indications were that very few, less than 1% was reported in one office, were in

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[19]William F. Cuozzi, Jr., Letter to the Editor, Wall Street Journal, January 10, 1963, p. 16.

[20]"Review and Outlook," Wall Street Journal, January 10, 1963, p. 16.

complete support of the President. At the other end, the outright opposition was somewhat greater but still a small figure. The middle range of support or non-support, with various stipulations involved, accounted for most of the volume. As previously mentioned, nothing specific can be drawn from these visits, but it indicates that there are a considerable number of people in this country who, for one reason or another, are concerned about seeing our public debt continue to rise.

Words written in 1943, bring emphasis on this point.

> Finally the National Debt, its size and its increase, is important because nine out of ten of the American people believe it is important. The problem of the National Debt makes all the difference on earth to the future of the U.S. simply because the people believe it makes a difference. And in a democracy that is all that matters. No political party or group can expect to hold the support of the American electorate unless it can furnish that electorate some answer other than oratory to the problem of the public debt.[21]

Mr. Voorhis wrote twenty years ago, but his words ring true today.

In the administration's two-day presentation of the tax program's details on February 6 and 7, 1963, before the House Ways and Means Committee, Treasury Secretary Douglas Dillon said that a total revenue loss to the government of $10 to $10.5 billion was as large as would be fiscally responsible.

Early in his remarks, Mr. Dillon emphasized that he did not believe that the fiscal 1964 budgetary deficit, which

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[21]Jerry Voorhis, Out of Debt, Out of Danger (New York: The Devin Adair Co., 1943), p. 226.

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would result in part from tax reduction and in part from government spending in excess of revenues under current tax rates, would contribute to inflationary pressures.[22]

> The Joint Senate-House Republican leadership report of February 8 called the Kennedy Administration's program of tax reduction and increased government spending in fiscal 1964 "undoubtedly the biggest economic gamble in the history of nations." The GOP policy statement said the Administration "is engaging in a desperate kind of economics, because it has no solution to the unemployment problem." It said "the policy embraces no tried economic formula, in fact it runs counter to economic experience in the expansion of the job market. Its principle novelty is the creation of a giant deficit by a tax cut.
>
> . . . .
>
> The statement said that "full prosperity could be the product of sound fiscal practices, of tax reduction accompanied by a reduction in federal spending, of policies that create confidence in Government instead of doubt and uncertainty.[23]

On the other hand, as one would expect, the President's Advisory Committee on Labor-Management Policy supported the tax reduction program. They are convinced more than ever of the need for prompt and effective action on a tax cut.[24]

The Tax Foundation, a non-profit research organization which has as its goal giving assistance in the development of more efficient government at the least cost to the taxpayer, said that federal tax cuts

> not matched by federal spending reductions . . . can scarcely justify endless and large deficits.
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> . . . .

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[22] U.S., Congress, House of Representatives, Committee on Ways and Means, Hearings, Tax Program, 88th Cong., 1st Sess., 1963, Part I.

[23] "Administration Tax Proposal Hearings Open," Congressional Quarterly Weekly Report, Vol. XXI, No. 7 (February 15, 1963), p. 198.

[24] Ibid.

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> Repeated deficits will discourage progress toward tax modernization.[25]

The American Farm Bureau called for an $11.8 billion cut in the proposed fiscal 1964 budget. This would bring the budget into balance and create a more favorable situation for a tax reduction.[26]

Writing to The Wall Street Journal, Richard S. Bower, Associate Professor of Business Economics at Dartmouth College, sums up his remarks with the following conclusions: The experience of the depression and the war are not conclusive evidence, but they do suggest that unbalanced budgets can encourage growth and employment without leading to runaway inflation. Certainly there are periods when a tax cut can do more harm than good, but it seems unlikely that we are now in one of these periods. He also believes that it is unwise to oppose a policy that may move a lagging economy forward because of an unsupported fear that all deficits must be dangerous.[27]

Professor Earl Latham, Professor of Political Science at Amherst College, believes that the huge deficits ahead, particularly immediately after a big tax cut, are of little concern to the mass of voters.

> People don't look at the price list as much as what is being offered. In the 1930's there was great resistance to deficit spending and predictions of collapse. But the country wants to buy now. It's almost impossible

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[25] Ibid.

[26] Ibid., p. 199.

[27] Bower, op. cit.

to translate the budget enormities into terms that are understandable.[28]

That which has just preceded is only a small sample of the comments concerning tax cuts and our national debt, which are being made here early in 1963. If anything is to be concluded, it can only be that we do not have a united front on this subject. In fact, with all the provisos different people or groups offer as their method of handling the dilemma, it is difficult to find a line of demarcation between the pros and the cons.

Merriman Smith, writing in a recent issue of Nation's Business, sums up this potpourri of thinking very well.

> It's possible that history will prove Mr. Kennedy and his economists to be essentially sound in their beliefs that striving for federal budgetary balance this or next year could trigger a real recession. It's also possible that time will prove the President to be right about the harmless nature of running several more large federal deficits--if this policy strengthens the economy and helps to increase national productivity.
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> While waiting for history and time, however, Rep. Mills and his opposite number in the Senate, Chairman Harry F. Byrd of the Finance Committee, are not disposed to rush into tax reduction unless Mr. Kennedy pulls down federal expenditures appreciably.[29]

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[28]"Authorities Forecast: Prospects for Kennedy Program," Nation's Business, Vol. 51, No. 1 (January, 1963), pp. 42-44.

[29]Merriman Smith, "Trends: Washington Mood," Nation's Business, Vol. 51, No. 3 (March, 1963), p. 24.

CHAPTER V

AN ANSWER

Decisions of Emotions

It may seem presumptuous to suggest a solution to the reader, who by now must certainly be wondering what can be done about this confusing atmosphere we are in. However, if the writer has been successful in the foregoing to make the reader look at the problem from an unbiased viewpoint, that is a start. It almost seems too obvious to say, but the fact is that we have to get together and discuss our differences on any matter, and we generally have to give and take if any kind of satisfactory action is to result from the discussion.

The writer considers this national debt involvement something which deserves our immediate attention if we are to continue our world leadership. It is not an issue to be used in political tactics, nor one that can be allowed to drift aimlessly, as it has for some years now. Even though we have our different points of view, we as a nation are quick to unite when our national image is threatened. We are quick to realize that our internal differences will hinder our national objectives, and we therefore put them in the background until the emergency is over. One does not have to go back very far in history to verify this, Mr. Castro being a case in point.

Why then have we failed to realize that the very basis of our national strength is vitally involved in the debt problem and have not united to attempt to resolve it?

The fact that a United States President and his closest advisors want something for the good of the country, and a large portion of the Congress and the people are not in agreement because of doubts as to what the outcome will be, is not so disturbing as the fact that we apparently are not making any progress in resolving the matter. The President's tax program is receiving prominent attention throughout the country, but the end result will be an emotionally decided compromise which will satisfy neither side.

Gould Lincoln in his column "The Political Mill," writing on the subject "Tax Reduction a Football," ends his column by saying:

> In the midst of all this uncertainty--the only thing that seems certain is there will be a tax reduction of one kind or another, notwithstanding all the conflicting forces. It will be welcomed, and it is hoped, beneficial.[1]

This is not an acceptable means of solution to a problem of this magnitude. We have to chart a course and stay on it at least until there is valid reason to change. It was suggested earlier that we have not had a course to follow, and the road we have been following is beset with detours.

Mr. Jesse Burkhead, writing in 1959, seemed to be suggesting the same thing when he wrote:

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[1]Gould Lincoln, "The Political Mill," The Evening Star (Washington, D.C.), March 21, 1963, p. A-6. (Underline mine.)

> This would seem to be the remaining and challenging task for the critics of conservative fiscal policy: to provide a guide to governmental budgeting which will serve two purposes simultaneously. The first purpose is to guide the transfer of resources from the private to the public sector; the second is to guide the selection of the aggregate level of receipts and expenditures, with a view to stabilization. <u>The guidelines must be widely understood and capable of political implementation</u>. Until this task is done, we can confidently anticipate a continuation of discussion over national debts and deficits, a discussion which will abound in semantic confusion.[2]

Reaching Our Goals

Before we suggest an answer, a possible method to follow in dealing with this situation, it would be well to explain why it is of such concern. Why should a military man in the business of being extravagant, as so many accuse, be concerned? As long as the military gets the bulk of the budget, what is the axe that has to be ground?

Very simply, it is this. Some wise council has convinced the author that there is generally more than one solution to every problem Some are better than others, of course, but there is more than one answer. The writer, having been one who was an anti-spender and in fear of a huge national debt, has seen validity in some of the new ideas. Now he wants to know if some of the new thinking should not be used to advantage rather than continually to be justifying itself to the old and thereby losing its benefits in the process.

In the current situation, even if the administration's program is the best answer, there is little chance of its being

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[2]Jesse Burkhead, <u>Government Budgeting</u> (New York: John Wiley and Sons, Inc., 1959), p. 452. (Underline mine.)

being completely accepted.

Leland Hazard, Director-Consultant of the Puttsburgh Plate Glass Company, Professor of Industrial Administration and Law at the Carnegie Institute of Technology, and Vice Chairman of the National Planning Association, asked about a year ago, "Can We Afford Our National Goals?"[3]

In his article he reviewed our history and our ability to do the impossible again and again. He likens the United States to a man who at some time between the ages of forty-five and sixty discovers that he must ration his strength; he finds that we are beginning to take inventory. Can we achieve all our goals at once? That is the question that now begins to nag us.

He relates that in the years from Hiroshima to the present, our historical position of security behind our two oceans has shifted to one of open vulnerability to nuclear attack. We have come in a very short time from a sense of omnipotence to an ominous doubt about our very survival. And finally, we are half-baffled by a dilemma. If we do gird ourselves for the garrison state--determined at all costs to survive--will we lose so much in the process that survival will be worthless? And if we do gamble everything on survival, when shall we know the outcome?

> It is not so simple a case as to risk all on one toss of the coin. For it may be that in the lifetime of the youngest of us neither heads nor tails will come up.

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[3]Leland Hazard, "Can We Afford Our National Goals?," Harvard Business Review, Vol. 40, No. 3 (May-June, 1962), p. 6 ff.

. . . .

> Twenty-five years ago it might well have been impossible to cost America's goals. But today we possess the measurement and projection techniques with which to appraise a balance between our aspirations and our resources. It is remarkable that in a practical America no agency--governmental or private--has performed this obviously sensible and necessary function.[4]

It is impossible to include all of Professor Hazard's ideas herein, but the goals should be in the minds of everyone. He discusses the fifteen goals, both at home and abroad, which President Eisenhower's Commission on National Goals presented in 1960, adds one from the Kennedy administration, and attempts to put a price tag on them. Just to list them is not as meaningful as reading his article, but briefly the goals are:

I. GOALS AT HOME

1. The Individual--The status of the individual must remain our primary concern.

2. Equality--We must sharply lower those last stubborn barriers of religious prejudice, employment handicaps for women,and racial discrimination.

3. The Democratic Process--The degree of effective liberty available to its people should be the ultimate test for any nation.

4. Education--The development of the individual and the nation demands that education at every level and in every discipline be strengthened and its effectiveness enhanced.

5. The Arts and Sciences--Information and

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[4] *Ibid.*, p. 8.

knowledge must be advanced on every front.

6. The Democratic Economy--The economic system must be compatible with the political system.

7. Economic Growth--The economy should grow at the maximum rate consistent with primary dependence on free enterprise and the avoidance of marked inflation.

8. Technological Change--Change should be promoted and encouraged as a powerful force for advancing our economy.

9. Agriculture--A supply-demand equilibrium to permit the market to determine the manpower and capital--committed to this sector of the economy.

10. Living Conditions--Remedy slum conditions, reverse the process of decay in the larger cities, and relieve the necessity for low income and minority groups to concentrate in debilitated areas.

11. Health and Welfare--More doctors, nurses, and medical facilities are needed to meet the enormously increased demand for these services.

II. GOALS ABROAD

12. To Build an Open and Peaceful World.

13. To Defend the Free World.

14. Disarmament.

15. The United Nations.

16. Space, Including the Moon.[5]

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[5] Ibid., pp. 10, 12, 14, 16, and 174.

What American can argue that these indeed are necessary and desirable goals? Professor Hazard did not put a price tag on all of these objectives, but even at that, he projected an annual requirement of $300 billion. He says our democracy must face a degree of discipline beyond our past custom. We have to analyze goals for priorities and analyze resource potentials for enhancement.

> Once we have taken these steps, we then face the job of disseminating the findings widely, effectively, and forcefully.[6]

Professor Hazard's concern that no agency has placed priorities on our objectives, and determined how much of our resources will be used, is in the same plane as the author's concern with our handling of our finances. The time for decision is now. That, of course, is easier said than done, but without question, the time for action is now. But with the wide variety of opinion concerning our debt, however can we hope to resolve our differences toward a national united effort?

New Technologies

A great deal is heard these days about operations research and how it is used to compare not only alternative ways to carry out a specified program, but also alternative scales of that activity or alternative allocations of resources among activities.

In a paper written in 1957, showing how operations research can help in determining program sizes in the Forest

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[6] Ibid., p. 174.

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Service, the author concluded:

> How widely in government is this type of exhibit feasible? This question cannot be answered at present. . . . useful measures of performance appear to be feasible in numerous activities. . . . On the whole, the outlook for budgetary exhibits of this sort is surely hopeful, for the techniques of operations research will make possible improved measures of performance for an expanded list of government programs.[7]

A decision which is best for the organization as a whole is called an optimum decision; one which is best relative to the functions of one or more parts of the organization is called a suboptimum decision. The problem of establishing criteria for an optimum decision is itself a very complex and technical one. Operations research tries to find the best decisions relative to as large a portion of a total organization as is possible. Operations research attempts to consider the interactions or chain of effects as far out as these effects are significant.

The overlap of methods, techniques, and tools between operations research and other fields is largely due to the way in which operations research was initially and is still carried on. It is research performed by teams of scientists whose individual members have been drawn from different scientific and engineering disciplines. One might find, for example, a mathematician, physicist, psychologist, and economist working together on a problem of optimizing capital expansion. The effectiveness of such inter-disciplinary teams in tackling the

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[7]Roland N. McKean, Operations Research and Government Budgets (Santa Monica, California: The Rand Corp., March 7, 1957), p. 19. (Typewritten.)

type of problem characterized as the subject matter of operations research is not accidental.

One of the major reasons for operations research teams is to bring the most advanced scientific procedures to bear on the problem or to develop new procedures which are more effective in approaching the problem than any that are available. The idea is that no one mind can hold all the potentially useful scientific information, but a "team mind" may.

Another important advantage of the team approach lies in the fact that most man-machine systems have physical, biological, psychological, sociological, economic,and engineering aspects. These phases of the system can best be understood and analyzed by those trained in the appropriate fields. Those in control of a system may be unaware of one or more of these aspects and hence have an incomplete picture of their system; that is, to see a system as a whole means not only to see all of its components and their interrelationships, but also all aspects of its operations. A mixed team increases the number of aspects of the operation which can be examined in detail.[8]

Herburt P. Galliher, writing in a publication consisting of articles on operations research, says:

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[8]Russell L. Ackoff, E. Leonard Arnoff, and C. West Churchman, Introduction to Operations Research (New York: John Wiley and Sons, Inc., 1957), pp. 3-19.

> Unfortunately for the merely curious mind, simulation is an effective problem-solving technique in operations research. Indeed, it represents an excellent experimental medium by which to study the time-pattern of operational events <u>and the consequences</u>, as they extend over a modeled future, of decisions.[9]

John F. Magee and Martin L. Ernst, in writing about "The Challenge of the Future" for operations research, say:

> . . . Operations Research field is far from mature, that challenging technical and professional opportunities exist if the field is to meet the needs of management in a world of dynamic change, where effective use of economic and human resources and efficient planning in the face of competition and uncertainty will determine industrial and national survival.
>
> . . . .
>
> As a professional field, our real responsibility is to use these assets, developed so extensively in the fifties, to support professional growth and to formulate the experiments, concepts, and method needed to meet the challenge of the sixties.[10]

This discussion of operations research is nothing more than a layman's attempt to show what it is and what it is capable of doing. Operations research is doing things today that were not possible a year ago and the future should see continued advances.

Leavitt and Whisler in their reasoned prediction about the future talk about a new technology that does not yet have a single established name, but which they call "information technology." It is composed of several related parts.

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[9]Notes on Operations Research. Assembled by the Operations Research Center, Massachusetts Institute of Technology. (Cambridge, Mass.: The Technology Press, M.I.T., 1959), p. 231. (Underline mine.)

[10]Russell L. Ackoff (ed.), <u>Progress in Operations Research</u> (New York: John Wiley and Sons., Inc., 1961), p. 489.

> One includes techniques for processing large amounts of information rapidly, and it is epitomized by the high speed computer. A second part centers around the application of statistical and mathematical methods to decision making problems; it is represented by techniques like mathematical programming, and by methodologies like operations research. A third part is in the offing, though its applications have not yet emerged very clearly; it consists of the simulation of higher-order thinking through computer programs.[11]

Team Effort

With these new approaches to problem solving a reality, and with the federal government the biggest single user of the new technologies, it should not be difficult to devote some of these efforts to the national debt problem.

A team effort, chartered jointly by the executive and legislative branches of the government, composed of leaders in the fields of economics, finance, industry, labor, government, and, of course, operations research to approach the problem from all viewpoints, does not seem too unreasonable. Perhaps the field is still lacking in its ability to cope with this type of problem and its multitude of variables. However, this has not stopped us in our space efforts and it should not stop us here.

There is no need to draw a blueprint of their endeavors but they should be directed toward seeking out a best route. Under various established conditions, how much can we afford now and for our future? Is more debt now, in building for the

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[11]Harold J. Leavitt and Thomas J. Whisler, "Management in the 1980's," <u>Harvard Business Review</u>, Vol. 36, No. 6 (November-December, 1958), p. 41.

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next decade or two, imperative? How much can we afford, not only for defense, for space, and for foreign aid, but also for education, health and welfare, and living conditions? The writer would be the first to say that this sounds ridiculous. How can one possibly obtain agreement on such far-reaching problems? However, it is suggested that it is a start. It is action to tackle the problem from a purely scientific and technical approach. It will eliminate the emotional and political aspects which are so prevalent today and give us some boundaries within which we can establish our national objectives. National objectives in this sense mean a united effort with the executive and legislative branches working together as they have done on many occasions in the past.

> The wrong kind of Federal Budget today, no less than the wrong kind of private economic policies today, means the wrong kind of national economy tomorrow.
>
> Our most urgent need today is to substitute a long-range nation-wide purposefulness for short-range improvisation, and to substitute consistent and unified policies and programs for segmental conflicts and unrelated efforts.[12]

This is no easy task, but neither is placing a man on the moon. Still, in that case we have an objective toward which we are heading. The proposed committee could vary in size as conditions dictate, but the nation must be assured that every side has a voice. We must be advised of progress and ultimate findings, and if necessary, have the ultimate decision placed in our hands. But we would have to be certain that the

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[12] Conference on Economic Progress, The Federal Budget and "The General Welfare" (Washington, D.C.: By the author, December, 1959), p. 74.

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choices and probable resulting effects could be thoroughly understood by the masses.

It will take some doing and may never be achieved, but at least those of us who are concerned will have the knowledge that the effort was made. Action in this direction could very well give us a better idea about our capabilities, and above all, we might find a way to put an end to some of the questions which are going unanswered today.

> One's conception of what is a good society is inevitably subjective, and one's appraisal of the future uncertain. My conception of the good society, and my apprehension of the threats and the opportunities we confront, lead me to believe that we are dangerously short-changing ourselves on defense, foreign aid, education, urban renewal, and medical services; that we badly need the increase allocations to these and a variety of other public tasks. And if I am concerned that we ask the right questions, and that we pay attention to the facts, it is no doubt partly because I am inclined to think that once the issues are clearly posed, more people than not will tend to agree.[13]

Mr. Bator, and others too numerous to mention, might see some of their questions answered, and most of us could feel that at least we are doing something active to insure a strong and prosperous United States for ourselves and our children.

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[13] Francis M. Bator, The Question of Government Spending (New York: Harper and Brothers, 1960), Preface, p. XIV.

CHAPTER VI

CONCLUSIONS

After one has attempted to bring into focus a long-standing problem and then glibly suggested a solution, what is there to conclude? The conclusions reached in this work cannot be considered original. In fact, the conclusions may be apparent in varying degrees to a great number of Americans. The writer, however, has come to the realization that something that was very vague a few months ago, and carried with it a sense of uneasiness, can now be approached with some hope for the future.

If the writer has had any measure of success in his writing, the following conclusions should be reasonably clear:

First, during the greater part of our government's existence there has been an established policy regarding our national debt.

Second, during the last thirty years this policy has become diffused with a multitude of opinions, so that today we are wandering in the middle ground.

Third, this middle ground lies between wide boundaries of opinion and it must be charted so that we have an objective. Without a route there are numerous ways to go without assurance that the destination will be reached.

Fourth, it is very possible that the techniques and machinery are available to assist in making the decisions in charting the course.

And finally, the time for action is now. If we are to hope to remain strong and leave our progeny a country worthy of our tradition, we have to discontinue our aimless methods in dealing with the national debt problem.

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